The Economic Club of New York

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Webinar

May 27, 2020

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Introduction

Welcome everyone. This is Barbara Van Allen, President of The Economic Club. Thank you for joining us. And we are going to get started in one minute.

Good afternoon, I'm Marie-Josée Kravis, the Chair of The Economic Club of New York and a Senior Fellow at The Hudson Institute. And I want to thank everyone for joining us today. The Economic Club of New York is one of the nation's leading nonpartisan forums for discussions of economic, social and political issues. And we feel we have a special responsibility during this time of crisis and uncertainty to try to bring to you the most relevant information regarding both the health crisis and the economic and political implications that we're now witnessing and that we'll continue to witness as we evolve. I want to welcome the members of The Economic Clubs of Chicago and Washington, D.C. who have also joined us today. So thank you for your very assiduous participation in our conversations.

Before we begin, I want to extend a special thanks to all of our healthcare workers, our frontline workers, and all of those in public positions that keep us safe and that make our lives easier. And I thank you for your commitment and devotion to our country and to all of us.

It's a pleasure today for me to introduce our guests today – Alan Guarino, who is the

Vice Chairman of Korn Ferry, Korn Ferry CEO and Board Services Practice and a member of The Economic Club of New York, and Mark Arian, the CEO at Korn Ferry Consulting. Alan brings a unique perspective to Korn Ferry as a former chief executive himself and an experienced consultant working with corporate boards and executive teams to drive business and talent management strategies. He leads major consulting initiatives across industries with deep expertise in global financial markets. And he launched Korn Ferry's Execution Accelerator Initiative, which helps business leaders better execute their strategies.

Mark Arian leads Korn Ferry Consulting and previously served as Managing Principal for EY's People Advisory Services for the Financial Services sector. He was also a Global Practice Leader at AON, Towers Watson, and Hewitt Associates. Mark is an attorney and a member of the Bar of the State of New York and the District of Columbia and a frequent contributor – you've seen him on many media outlets.

The format today is a conversation which I'm happy to be moderating. We will end promptly at 2:45. And a number of questions were sent to us by members and I will try to incorporate those in our discussions.

Conversation with Mark Arian and Alan Guarino

CHAIRMAN MARIE-JOSÉE KRAVIS: But first, Mark and Alan, just to launch this, you've both been very outspoken about the need for CEOs to show real leadership in this period of crisis, not to wait for others, not to follow just existing trends or what they're perceiving as trends. Everybody seems to be pulling at straws and trying to find out what one another are doing. But you're telling them to really stay loyal to their culture and their mission and to really try to lead, show real leadership. So would you expand on that? What are you telling them exactly?

MARK ARIAN: Well, maybe I can start and then hand off to Alan for his commentary. But, you know, we've been doing research for the last year and a half. We've been teamed up with the Aspen Institute. We interviewed literally hundreds of board chairmans, CEOs, investor groups. You know it was true before the Covid-19 broke that companies and their CEOs were already evolving to meet the demands of a highly complex and disruptive economy. You know, the expectations of business leaders have changed and they've changed even more dramatically since the outbreak. You know, the CEO is not just leading a business, but he or she is, you know, leading an innovative community of employees, suppliers, producers. And, you know, as the nation states have become more nationalistic, we often find CEOs playing the role of global citizen.

Post-Covid, you know, we have an existential situation where CEOs are having to focus on the health of the economy, being forced to focus on the health of the people in it, their own employees, their vendors, their suppliers. So the role is changing. It's changing fast. And the pandemic and associated financial crisis have really accelerate the pace of fundamental economic and societal change. And, you know, companies and their CEOs have been forced to adjust priorities and rethink how they conduct business and nowhere is that more important than with the health of their own employees. Alan...

ALAN GUARINO: Yes, I think back. I got some great advice many years ago when I was a young Army officer. And this person told me, one of our battalion commanders, actually a brigade commander who said, you know, at the time, Captain Guarino, you need to put yourself in places where decisions need to be made. That's the job of a leader. And the day-to-day activities of the company or the organization will be done fine with leaders that are given those responsibilities. But leaders at the top of whatever organization it is are the ones that have to put themselves in a place where critical decisions need to be made.

Right now that's where every CEO certainly is, every divisional CEO is. And every CFO, CMO, COO, all of those people are leaders of leaders. And they're creating a standard as to how their organization is going to, not only react but quite frankly power through, transcend and transform so that they can deliver the outcomes that the organization has to deliver.

Now, what I'm focusing on quite frankly, and you can be overwhelmed with how much there is to focus on, so I like to draw it back to very simple sort of parameters. At the macro, leaders need to be focusing on this concept of purpose and what is it that their organization stands for and why does it exist. And then they need to focus on this other very tactical thing called resilience and ensure that their organization can operate in a resilient manner because so much change is about, that resiliency is sort of the core, the enabler for that. So purpose at the top, big picture in macro, and at the tactical level, resilience.

CHAIRMAN MARIE-JOSÉE KRAVIS: Well, I want to expand on that word resilient. Well, two words, because you also, Alan referred to nationalism also. I'm sorry, Mark referred to nationalism. So governments are becoming more nationalistic and we talk about CEOs as being global citizens, but on the other hand, if you look at supply chain challenges, in a sense they may now, many corporations are looking at a more resilient, more diversified, less dependent on one or two countries approach to supply chain management. So if you look at a problem like that where you're having to balance the global citizen role but also the resiliency of your supply chain, how do you help them analyze this and think this through?

ALAN GUARINO: Mark, do you want me to touch this first?

MARK ARIAN: Yes, take it, go ahead.

ALAN GUARINO: Yes, so I mean, you know, when you talk about the mandate of a leader and certainly a CEO, one of their primary responsibilities is risk management. And so I think if you take it out of the context of nationalist, global, globalization, etc., it's something you can boil down to fairly simple terms. Globalization largely was fueled by a labor arbitrage opportunity that enabled efficient markets to power work to places where it could be done most efficiently. And, as a result, that brought a lot of work that previously had been vertically integrated inside a particular nation or sovereign to be spread out in pieces throughout the world, components that would aggregate back to the ultimate product. And it was very Adam Smith-like and quite frankly...

CHAIRMAN MARIE-JOSÉE KRAVIS: It's all about optimization.

ALAN GUARINO: Pretty beautiful to watch it happen. But now we're in a situation where we are kind of at odds with the notion of efficient markets and this concept of managing risk. And a lot of people have put it in that manner. I like to say no. I like to say that efficient markets always have a risk management component within them. Right? So I think if we take the pressure off all of us, if we simply say we need to be as global as we can possibly be to capture the global efficiencies that are available but with the rudder of risk and risk mitigation as one of the key determinants when we make those decisions, which quite frankly means that we will likely have more national-based, domestic-based, or quite frankly what we would call maybe friendly regional-based supply chain production for components that are going to be more costly to do in that location than they would have in a more global environment but the risk mitigation is worth it when you do the cost-benefit analysis – if that makes sense.

CHAIRMAN MARIE-JOSÉE KRAVIS: Yes, it makes immense sense. I don't know if you wanted to add something to that.

MARK ARIAN: No, I think Alan said it beautifully. I have nothing to add to that.

CHAIRMAN MARIE-JOSÉE KRAVIS: So, just to go back, because you mentioned the fact that, in fact, the virus both compresses and accelerates time. And in a sense if you look at the trends that we are now alluding to, which is, you know, much more, better risk mitigation, dealing with ambiguity, I'd add, you know, dealing with fear. Your employees, many are fearful going back to work and engaging again in the economy. A lot of these trends – except maybe the fear component – a lot of these trends existed before ___. And one that's emerged now front and center and especially in the last few days with the European governments now talking about stimulating their economy with a big emphasis on the green economy, so one of them is ESG. And I would suspect that even amidst this crisis you're seeing that acceleration amongst your clients. Is that correct?

MARK ARIAN: Well, I think, look, at the end of the day, you know, there are important changes that need to be made in how executives are paid and where their priorities are focused. Alan talked about purpose and values. There are a swirl of a number of issues that were already in play that have become accelerated. ESG was already out there. The bottom line is that, you know, the foundational underpinnings of executive comp philosophy will differ by company. Some of our clients are in survival mode. Others are cruising in this environment. They're always dealing with the same subset of issues – identification of top talent, retention of top talent, who they need to be recruiting into the world that they see unfolding. But, yes, executive pay programs were built on philosophical foundations that may have had some of their relevance mitigated now.

You know, how we define competitiveness and fairness is changing and has been a central focus for pay programs for some time. What measures of company's performance should we be aligning with? The role that TSR should play in the program. But it's becoming increasingly complex as well and difficult to understand and explain. So I think, and Alan would agree with this, you know, far too many compensation committees right now are relying on things like benchmarking more than they should, i.e. you know, we're okay if we're somewhere around the 50th percentile or above in setting executive pay and determining adjustments. And they need to go back to basics of sort of what are we rewarding for? What are the underpinnings of our EC philosophy? And certainly ESG is one of those components because the investor-centric economy of the last decade is opening up to – as you point out – other priorities, including, by the way, employee well-being and commitments to long-term business success. Alan...

ALAN GUARINO: Mark, I don't think I would add much to that at all. I mean the focus on ESG has been building and in times of pressure and crisis, priority items that moved slowly previously have a window to move more quickly. And I think this is an example of this crisis bringing an accelerated pace to some of these concepts. And we don't know what they'll actually look like when implemented and then, of course, they'll evolve from there. But I think there'll be a lot more of it, you know, front and center faster than there would have been without the crisis.

CHAIRMAN MARIE-JOSÉE KRAVIS: Well, you've already seen companies announce pay freezes, certainly bonus cancellations, freeze in pay. You've had countries such as France where the Finance Minister has asked management to take a 30% pay cut, cut dividends, cut board fees. How far do you think this might go?

MARK ARIAN: You know we've seen a drastic shift. We actually have data. We surveyed 1,200 companies. We just got fresh data. But, you know, at a macro level, I think 146 S&P 500 companies have suspended buybacks. Fifty have suspended or cut dividends. Thirty-seven have instituted job freezes. Ninety-one have cut executive comp. It's pretty profound. And of course the labor data that's reported doesn't really accurately reflect the degree of compensation and salary adjustments. We have 30% of our clients responding say they have already instituted salary cuts, 70% are considering them. This is as of last week. Annual salary increases have been canceled by almost 40%, 58% say they're considering that.

You know, you go down the list, promotional increase is suspended. Temporary pay for attending work, like supplemental bonuses or hazard pay, reduction of benefits. It's pretty significant and it cuts across most of our clients and industries. So it's, you know, I personally will just say that with, you know, with 30+million Americans unemployed and then the further pay reductions that aren't reflected in that labor data, you know, we've got some work cut out for us to turn this into anything other than an L-shaped recovery.

CHAIRMAN MARIE-JOSÉE KRAVIS: And do you think that, do you think that this is going to have an impact on retention or on recruitment of top executives?

MARK ARIAN: Alan...

ALAN GUARINO: Marie-Josée, I honestly think that we are going to have to answer that in sort of, along a timeline. So current state, there is going to be significant movement of jobs because of the catalyst of just people tend to pick up their head and break inertia which holds many people in their jobs on the back of or in the middle of crises. So it's sort of like, well, there's so much happening at my company, there's so much uncertainty in my company, there's so much that is starting to look like we're going to be new and different, and I don't know if that's going to be better.

And so as a result, they're more inclined to listen to an opportunity albeit people are so busy in the day-to-day mission here that they may not have enough time to do a lot of it. So at the end of the day, there will be a little bit more movement – I would say – over the next eight to nine months than would be what would have been the standard.

But what's really, really important to realize is that when this settles, whatever settling looks like, we're going to be faced with the reality that this, you know, two-decade old notion of a war for talent is going to be ferocious. Absolutely utterly ferocious. Because out of this crisis, the level of innovation that is going to happen, the amount of change in terms of workforce deployment is going to be so significant that companies that have been talking about this idea of an employer brand and an employer value proposition that makes their company attractive to people so that they would want to be employed there are going to have to face a very big reality. And that is that they are not prepared in their leadership climate or culture to actually operate and survive at a high level without making big changes.

If they can't adopt a concept of – I hate the term but it's very common – servant leadership and a leadership where their job is actually to enable their people and their people's job is to deliver the outcomes and we are nowhere near where we need to be in the world in that form of leadership. When someone sits down to a performance review with their boss, I would venture to say that less than one-half of one percent of that conversation begins with the boss saying, Marie-Josée, before we talk about your performance, how can I help you and what can we do to change, here, that's been getting in the way of you doing greater things than you've already done for us? How am I getting in your way? How am I not enabling you? That's the way we're going to have to approach leadership going forward. And that's where you will get the retention and that's where you will get the, you know, #lovewhereyouwork, actually coming to fruition, if that makes sense.

MARK ARIAN: The only thing I would add here is, look, great talent wins always and ambiguity always works against you. So there will be people who are recruited away and that's one of the priorities, by the way. When we talk about executive pay, one of the things organizations need to pay attention to and the boards need to pay attention to is how do we retain our best talent and mobilize them.

I will tell you that we just did a CIO Summit a week ago led by Craig Stephenson in our organization. And we had almost 100 global CIOs on and they're looking for people who, I'll quote him, you know, "can deal with ambiguity and uncertainty and lead through that." Location agnostic, they're looking for people with the ability to sustain, sustainability was a big issue. They're looking to drive talent of the future. Everything they had planned to digitalize their business is now on speed, you know, it's 3X. So those are some of the criteria that they were laying out as necessary adds to their team and so that recruiting becomes active. And that's consistent and constant with conversations I've had.

We were on the phone with – I mentioned to you before our call – a German automaker CEO was telling me that this was a tectonic stress test for his team and they failed. And he needs a different kind of capability again focused on agility, dealing with ambiguity, you know, able to lead through change, change management being a prerequisite that he particularly feels is missing from the organization. So I would echo what Alan says but a little bit more add-ons there.

CHAIRMAN MARIE-JOSÉE KRAVIS: That brings us back to the point of accelerating existing trends. And one of the things you're pointing to is the acceleration in the digital transformation and the need for technology-based talent. But at the same time, you're seeing a huge disruption in traditional industries and heavy industries, and, as you said earlier, 39 million people unemployed. So this gap between, you know, those who make it the war for talent and a huge share of the population that may not find jobs very quickly, may not just return to the status quo is going to pose real issues for corporate leaders for the brand of their companies and for them as individuals. The politicians aren't just going to let that happen.

MARK ARIAN: Alan and I have been working actively within our own business to address, you know, transition services, to build out capabilities. You know, we have an assessment capability and a leadership development capability. And for us, you know, innovation looks like how do we do this digitally? How can we assess people who are exiting organizations and organizations wanting to take care of the people that they have to furlough or lay off? And how do we gap them? How do we assess them for the jobs of the future, jobs that will now be critical? And how do we get them to come to the front of the line and train them on demand, you know, with personas, with individual journeys, so that they can land on their feet? And that's a big focus for us.

So our own business is being transformed from an analog business to one that, you know, we used to do a lot of the leadership development and assessment work in person, we're now doing it digitally and remotely, you know, with online coaching because that's what the market is demanding. So it's happening to us too.

ALAN GUARINO: Yes, we just on-boarded our first CEO who was hired in the middle of the crisis and has not left – in this case it's a guy – has not left his home. And he's in New York, actually in Greenwich, and he's running a company in Chicago. So all kinds of things like that are happening. In terms of your initial question, Marie-Josée, one other thing that's really important to have in terms of the consideration of the overall workforce is one of these chief HR officers that I had talked to about a week and a half ago said, okay, Alan, 99%, literally, of our company is working remotely. That's our base case as of today. Our question isn't how are we going to bring them back. Our question is who are we going to bring back?

And I've been talking with quite a few leaders and I personally like to talk to first-line leaders whenever I get the opportunity. I love talking with CEOs and they're our clients, but I also learn quite a lot talking to first-line leaders. And that armed me with the ability to say to that chief HR officer, it's terrific that you got that much, let's call it flexibility, but the decision as to how you do that is really going to rest with your people, not with you guys. And you're going to have to figure out which of those people is going to be delighted about the idea of working remotely? Which one of those people can't work remotely for various reasons, not to mention the ergonomics of their own home, or they don't have the benefit of enough square footage for a proper home office and, and, and. So there's so much influencing how people are going to be treated in the return to work, but if we listen to the voice of the staff, I think the best answers will come from there and certainly government will have an opinion too.

CHAIRMAN MARIE-JOSÉE KRAVIS: But I'm sure you're familiar with a number of economic studies, one from the National Bureau of Economic Research, and then another one recently done at Stanford that shows that only about 30 to 37% of the workforce can actually work remotely, that the majority of people have to get to work and come to work. And it seems that it may be many of those jobs that disappear or at least that don't reappear as quickly. And I'm wondering, you know, you've done so much work on corporate culture, how do you maintain the strength of a corporate culture when so many people in that organization are left behind and other employees are well aware of this? How do you maintain pride and commitment to the mission and pride in the culture when you're having to deal with these real human problems?

ALAN GUARINO: I'll take a quick crack, Mark, and then pass it over to you. I think that, number one, it's about honesty and trust, first and foremost. The reality is, Marie-Josée, it's an incredibly, you know, relevant question and should be on the mind of every leader as one of the top two or three things they're thinking about. But if leaders act in a trustworthy fashion and are guided with an approach that is driven by fairness and they articulate and communicate, then the culture will be as good as it can be under very trying circumstances. No one is going to have rose-colored glasses and think that the folks that are remaining versus the folks that were left behind in the event the company has had to downsize are going to have cultures that are just upbeat and excited. I mean their friends lost their jobs. Bosses lost key employees.

I was talking with a CEO the other day that said, you know, I just started looking at the names on the list and over 40 of these people have been with me for more than 20 years in this company. So it's very personal. But like all personal things, honesty, integrity, fair-mindedness, it's the only way to navigate it. And even when you use that and you try your best and you communicate well; you're still going to have impact on the culture. And the culture will be a somewhat new culture and maybe a stronger one.

And I'll leave it with this. This Career Transition Service that we're rolling out to corporations that want to help people using a digital tool, my view is that using that is just as important to the person who wasn't let go as it is to the person who is going to be able to build their new career off of that platform because that person is going to be able to say, look what my company did for my friend. They could have just handed her unemployment and sent her home, but they went this extra mile and provided this other service to really help her move along in her career. So that's culture enhancing as well.

MARK ARIAN: We're very much in syncopate. Fairness is a big part of it. Empathy, empathy should not be overlooked. One of the things that leaders get scored on when things don't go well, when you look at kind of the engagement values is a lack of empathy. So empathy, fairness, we talked about executive pay fairness a minute ago and probably will get back to that, but those are things that the workforce looks at. Alan is mentioning an important point. You know being able to train up or assess and re-skill people that were your neighbor shows that the organization is doing more than paying lip service to their workforce that's being altered and changed. So those are the combinations that I think make for a good outcome as well.

CHAIRMAN MARIE-JOSÉE KRAVIS: But as you know the political climate was such that even before Covid, there was a lot of finger-pointing to executive compensation, executive benefits versus the, you know, the average employee or worker in a company. And don't you think that that's going to be a much greater concern and that politicians are really going to point to executive compensation in a much more aggressive and less tolerant way than they have even when they were complaining beforehand?

ALAN GUARINO: Yes, I think, well, first of all, I think it's why there's been a response. I mean if you look at the impact by employee groups, executives have taken – as a rule – you know, the greatest hits, at least to base pay. The challenge pre-Covid, I mean it's worth noting where we were. The wealth gap was growing and everybody was asking why. You know the data suggests that the average, you know, the pay increase for rank and file was around 3% although there was very little actual, you know, real wage growth. Executive salaries and pay were, base pay was consistent with that. But what happened was that, you know, the long-term incentive, in particular, and annual incentive which is two-thirds of most executives' pay was moving at a much faster rate, almost 7%.

CHAIRMAN MARIE-JOSÉE KRAVIS: Plus the fact that they kept their jobs.

MARK ARIAN: Yes, of course. That's right. But, you know, that was causing societal issues between haves and have-nots. You know, no real wage growth for employees and then, you know, there were reasons why that happened. I mean just an insider's view, you know, nobody says my CEO belongs in the bottom 50th percentile, you know, look him or her in the eye and say, you know, you're at 30%. Everybody benchmarks 50% and above, which drives that kind of...if everybody's in the 50th percentile and above, you can see where that takes you. But clearly long-term incentive pay was moving at a faster, at a much faster rate.

So this was already a hot button issue. And yes, it's been, it's completely exacerbated now and this has become a spotlight issue. You know that's why compensation is fully in the ambit and one of the reasons we launched this initiative with the Aspen Institute to look at what does modern principles for sensible and effective, you know, executive pay look like.

We have a set of five principles that we're espousing. Pay is unambiguously tied to the company's purpose and the drivers of long-term success. Executive pay program is fully described in clear jargon-free language. Look, proxy requires certain things, but if you look at most proxies, it's 50 pages of increasingly complicated, you know, elements. And a well-designed exec pay program should be able to be summarized in two pages or less to contain an outline of overall structure, design intent, key features of the pay program, you know, avoiding excessive focus on things like total shareholder return.

The board ultimately bears the final accountability for making these decisions on executive pay and aligning pay with the long-term health of the enterprise. That goals used in incentive plans are credible and their outcomes are difficult to manipulate. And exec pay outcomes are fair – to your point – you know, pay is assessed internally at least across three dimensions. That pay for the CEO is appropriate relative to that of the rest of the executive team. That balance of pay between the executive team and the rest of the employee population is also reasonable. And rewards for company financial success are shared fairly with and between workers and shareholders. And that's become an increasingly hot button issue in the EU as you referenced.

And then, you know, some points, external pay benchmarking is treated as an input, only as an input. It's not the sole basis for setting executive pay elements. And executive pay programs are consistent with the company's broad compensation strategy for all employees, you know, focused again fundamentally on what drives long-term success for the enterprise.

CHAIRMAN MARIE-JOSÉE KRAVIS: So you refer to the role of the board, do you think that the composition of boards is going to change as a result of this?

MARK ARIAN: That's an interesting question, and I'm going to ask Alan to weigh in here. But, you know, we had, we've had a lot of discussion among our Board and CEO Practice about, not only the diversity of boards and bringing people with different skills and experiences, but also, you know, to put a plug in for people who have an understanding of, a deep understanding of talent and talent practices and retention practices because, you know, I think that's missing. The comp committee should be more than a comp committee. It should be a talent committee. How do we reward drive and incentivize the best talent in the industry? Again, my supposition is that it's a critical differentiator for ___ performance in multiple business cycles. Alan, do you want to jump in?

ALAN GUARINO: So I've been privileged to have the opportunity to serve on a public board and I ended up on the board because the previous board member was the chief HR officer of a Fortune 50 company and was coming off to go on another board. And that CEO was, you know, interested in having another talent expert – so to speak – on the board. As he put it, just like I have an audit expert and I have a technology expert, talent experts are different than what CEOs are. CEOs are experts in leadership, not necessarily the overall notion of talent.

So I do think that very little will change because I think boards in the last decade on the back of the financial crisis already changed significantly and became tremendously more active. You know a good board member, I like to say, has nose in and hands out. And maybe before the crisis, there weren't enough noses in, just in general, my personal view.

So the changes that will happen, I do think that boards are going to embrace this idea that we need a talent expert on the board. So if I asked a board member, top CEO or top Head of Marketing or top CFO from a previous career experience that now sits on a public board, what are the three top leadership competency models that are used today in workforce planning? No offense to them, but they wouldn't have the answer. It's not what they do. Some may not even, quite frankly, know how a competency model gets integrated into an organization's workforce strategies so that it can be used for both talent acquisition and talent development.

So, there is stuff to talent that's got way more to do with us knowing how to lead our folks. And that is partly science and partly our – like every other expertise – I would tell you that audit is partly science, partly art. So I think that will see the emergence of the talent expert that I always predicted would happen over the next decade. And I think it'll become probably over the next couple of years because there are a lot of talent implications around crisis.

And then other than that, I think what I often hear and I'm doing a board right now that has 500 retail, points of sale let's call it, 500,000 around the world – from New York to Iowa to Cambodia. And what they're telling me is while I would love an expert in X, which is our industry, what I'm really more interested in is a really accomplished C-level leader with battle scars and experiences so that, yes, we may lack a little of that expertise in that particular sleeve that we would get if we brought in an expert to serve on the board who knows that particular vertical, let's call it cyber security, but we would lose all the other things that we need to talk about that that person needs to contribute to in the boardroom. They don't have that breadth of business operating experience.

So the idea of people sort of rushing for some type of an expert now, another expert to have on the board, I think what most boards would say is we can hire a consultant when we need that expert and we'll stick to our approach of, our current approach of how we construct our board across the various competencies that we need. That's my view.

CHAIRMAN MARIE-JOSÉE KRAVIS: So you think they're looking more for people who have been in the trenches and who've had to deal with this kind of turmoil and ambiguity? So you think that's going to be with us for a while.

ALAN GUARINO: I do. I do. It was prevalent before the crisis because there is not a company today that's not in transformation, but this has definitely multiplied that quite a bit.

CHAIRMAN MARIE-JOSÉE KRAVIS: Are there any, again I know, I don't want to put you on the spot because I know you do proprietary work, but are there any countries or industries or companies that you think are doing it particularly well?

ALAN GUARINO: It's tough to, given the way we work, you know, it's like being in a big law firm with attorney-client privilege. So here's what I would say. There is no yet clear best practice that has evolved. I think it is still too soon. It's wait and see. Not wait and see meaning be indecisive. It's wait and see because we don't have enough data or information about so much of this to really make sound and new best practice. So what I would tell you is that the companies that are doing it well – and by the way, there are, sadly there's one I communicated with this morning that shocked me as to how not on top of this they are – the companies that are on top of this and that are looking at it with both caution and opportunity as the calculus, they're the ones that – in my view – are doing what is best practice right now. Cautious and opportunist. And then they'll figure out from there where they can go and eventually, we'll see some things that will go back and say, wow, that's going to be best practice. I think.

CHAIRMAN MARIE-JOSÉE KRAVIS: For companies that, I mean many companies are saying that with Zoom and this constant communication and constant communication on a global basis with Zoom or Teams or whatever other technology affords, that in fact their culture, at least their management group is more cohesive than it was in the past. Are you finding that? And is this, do you think, something that's going to become more common practice?

ALAN GUARINO: Mark, what are you hearing?

MARK ARIAN: You know I think it's mixed, to be honest. As I mentioned, I've had plenty of conversations with CEOs who have been terribly disappointed with their team's ability to rise to the challenge. But sure, there are companies that are finding this kind of freeing. Maybe we don't need the commercial space we thought we needed. Maybe we can function, you know, remotely and actually we're having more frequent conversations, we're seeing everybody virtually and it's kind of eye-opening how productive those teams have been. So it's a little bit bipolar.

I do think organizations are beginning to think about how sustainable this is. Is it a sustainable model? And can they do this, and one of the implications if, in fact, they can continue to operate remotely as such, and again things like commercial real estate, the cost of travel. Do they need in-person meetings? Can they take costs out and deliver, you know, deliver things to clients in a different way? All those things, that's where innovation comes in. We talked early on about, you had asked a question about what should organizations be paying for at the executive level and how should boards be thinking, but innovation has become a really important element of the discussions we're having in board rooms around executive pay.

How do we promote that, preserve it, grow it? How do we retain our readership? How do we, again, nurture the long-term, you know, success of this organization? And for those organizations that are still, you know, and many of them are in crisis or survival mode – retail – you know, what do we need to do to get through this crisis? Cash preservation, those things become more critical. So I'll morph your question a little bit about is this changing culture and is this becoming the new norm? Yes, for many organizations. And yes, there are upsides. But there are those that are struggling with this and it points a laser beam on some of the inadequacies and challenges that they need to address through training, development, or recruitment.

CHAIRMAN MARIE-JOSÉE KRAVIS: Well, there's also the view, at least in the economic literature, that innovation often emerges from serendipity, from people bumping into one another and that these meetings on Zoom or these meetings on Teams or whatever, are more transactional and they're much more focused and they address a problem but they don't allow for that free flow of ideas and emergence of, you know, serendipitous thoughts and so on.

MARK ARIAN: You're absolutely right. I did a study about ten years ago. That was one of the activators of innovation culture. The other, by the way, was permitting failure. But it had happened real fast. A Phase 1 drug trial failure is part of the cost of letting people, you know, experiment. A Phase 3 is a disaster. So, you know, rapid failure and testing, but also, yes, that interplay is the skunk works type of model of having everybody closeted together solving problems real time. Absolutely.

CHAIRMAN MARIE-JOSÉE KRAVIS: Well, I'm sure a number of our members would like to hear more of your advice and your thinking, but we have to, of course, cut this short. I'm sorry. Would you have just, in two words or one sentence, what's your advice to our members and the corporate leaders who are listening to us this afternoon?

MARK ARIAN: You know I think there are some guideposts, right? I mean right now I would encourage organizations to be bold and challenge conventional wisdom. Particularly, I know one of the precursors, topics you wanted to talk about was the executive pay and the board, you know, the comp committee, but I would say be bold, willing to challenge conventional wisdom. What worked in the past isn't a reliable guide to inform future decision making.

Consider how companies need to evolve right now to compete on a radically different business landscape. And, you know, the board should be assessing the implications for the kinds of leaders you need moving forward and determine the elements of the new rewards philosophy that align with those roles that you need them to play. I think, you know, don't wait to see what everyone else is doing.

Don't wait for permission from institutional shareholders. They have a point of view. They have a role to play, but it shouldn't be the primary role. You know, you shouldn't be beholden to them. Business judgement here plays a pretty important role in determining executive pay and it goes well beyond looking at pure benchmarking or TSR returns relative to a group of peer companies that may or may not make sense. You know, an experienced and independent comp committee is the best way, looking at the best interests of the company.

And there's things you can be doing near-term, I know we don't have time for this, medium-term and long-term. I know a lot of the questions your members got were around what do we do with current plans, you know, annual plans? Do we create a series of sub-grants that go through the remainder of the original term? What's best practice in setting sizes? All those things can be addressed in this construct of, you know, addressing this through a really coherent point of view and activating the organization's success for the long term. Alan...

ALAN GUARINO: Marie, just real quickly, there's a story that Napoleon used to put his leaders in positions where he could find an opportunity to give them a medal. And so I would leave leaders with this. Empower your people. Enable your people. And be more positive with them. Don't drive them, they don't need you to drive them. Enable them, they will deliver great results to the organization. You work for them. They don't work for you.

CHAIRMAN MARIE-JOSÉE KRAVIS: Oh, what a nice way to end. So, thank you Alan and Mark, for sharing your views and your insights. And this was very informative and helpful. I'm happy to report to our members who are on the line that we have an exciting calendar of webinars in the coming weeks. So please check the website for details. But just to remind you, we have Jeffrey Ubben, the Founder and Chair of ValueAct Capital on June 3rd. Robert Lighthizer, the United States Special Trade Representative on June

4. Paul Tudor Jones, the Founder and co-Chairman of Tudor Investments on June 9th. Ellen Zentner, the Chief U.S. Economist and Managing Director at Morgan Stanley. Elena Botelho and Bill McNabb, the former Chairman and CEO of Vanguard. Elena was a partner at ghSMART. And then Larry Summers and Glenn Hubbard for a repeat performance with us on June 24th. So thank you everyone. Please stay safe and continue to monitor our website. So stay well and stay in touch. Thank you. Bye.